KBR Ratios Guide

There are a few different categories of ratios included in KBR to assist you in determining the financial health of a company.

Solvency Ratios – Six key ratios measuring financial soundness
Efficiency Ratios – Five key ratios measuring asset management, suppliers, and equity
Profitability Ratios – Three key ratios measuring profit according to sales, total assets, and net worth.
Median Values & Industry Quartiles

Solvency Ratios

Solvency ratios measure the financial soundness of a business and how well a company can satisfy its short- and long-term obligations. D&B uses six key financial business ratios to measure a company's solvency:

- **Quick Ratio**, also called "acid test" or "liquid" ratio, considers only cash, marketable securities and accounts receivable because they are considered to be the most liquids forms of current assets. A Quick Ratio less that 1.0 implies "dependency" on inventory and other current assets to liquidate short-term debt.

  Cash + Accounts Receivable ÷ Current Liabilities

- **Current Ratio** is a comparison of current assets to current liabilities, commonly used as a measure of short-run solvency, i.e., the immediate ability of a business to pay its current debts as they come due. Potential creditors use this ratio to measure a company's liquidity or ability to pay off short-term debts.

  Current Assets ÷ Current Liabilities

- **Current Liabilities to Net Worth Ratio** indicates the amount due creditors within a year as a percentage of the owners or stockholders investment. The smaller the net worth and the larger the liabilities, the less security for creditors. Normally a business starts to have trouble when this relationship exceeds 80%.

  Current Liabilities ÷ Net Worth

- **Current Liabilities to Inventory Ratio** shows, as a percentage, the reliance on available inventory for payment of debt (how much a company relies on funds from disposal of unsold inventories to meet its current debt).

  Current Liabilities ÷ Inventory

- **Total Liabilities to New Worth Ratio** shows how all of a company's debt relates to the equity of the owners or stockholders. The higher this ratio, the less protection there is for the creditors of the business.

  Total Liabilities ÷ Net Worth

- **Fixed Assets to Newt Worth Ratio** shows the percentage of assts centered in fixed assets compared to total equity. Generally the higher this percentage is over 75%, the more vulnerable a business becomes to unexpected hazards and climate changes.

  Fixed Assets ÷ Net Worth

Efficiency Ratios

Efficiency ratios measure the quality of a business' receivables and how efficiently it uses and controls its assets, how effectively the firm is paying suppliers and whether the business is overtrading or undertrading on its equity. D&B uses five key financial business ratios to measure a company's efficiency:

- **Collection Period Ratio** is helpful in analyzing the collectability of accounts receivable or how fast a business can increase its cash supply.
  Accounts Receivable ÷ Sales x 365 Days

- **Sales to Inventory Ratio** provides a yardstick for comparing stock-to-sales ratios of a business with others in the same industry. A high ratio may indicate that sales are being lost because of low inventory and/or customers are buying elsewhere. A low ratio may indicate that inventories are obsolete or stagnant.
  Annual Net Sale ÷ Inventory

- **Assets to Sales Ratio** shows how efficiently a business is usingits assets to generate revenue. A high ratio may indicate the business is not aggressive or that its assts are not fully used. A low ratio may indicate a company is selling more than can safely fulfilled by its assets.
  Total Assets ÷ Net Sales

- **Sales to Net Working Capital Ratio** shows the number of times working capital turns over annually in relation to net sales. A high turnover rate may indicate that the business relies heavily on credit.
  Sales ÷ Net Working Capital

- **Accounts Payable to Sales Ratio** shows how a company pays its suppliers in relation to the sales volume being transacted. A low percentage may indicate a healthy ratio. A high percentage may indicate that the business may be using suppliers to help finance its operation.
  Accounts Payable ÷ Net Sales

Profitability Ratios

Profitability ratios measure how well a company is performing by analyzing how profit was earned relative to sales, total assets and net worth. D&B uses three key financial business ratios to measure a company's efficiency:

- **Return on Sales (Profit Margin) Ratio** measures the profits after taxes on the year's sales. The higher the ratio, the better prepared the business is to handle downtrends brought on by adverse conditions.
  Net Profit After Taxes ÷ Net Sales

- **Return on Assets (ROA) Ratio** shows the after tax earnings of assets and is an indicator of how profitable a company is. Return on assets ratio is the key indicator of the profitability of a company. It matches net profits after taxes with the assets used to earn such profits. A high percentage rated indicates the company is well run and has a healthy return on assets.
  Net Profit After Taxes ÷ Total Assets

- **Return on Net Worth Ratio** measure the ability of a company's management to realize an adequate return on the capital invested by the owners in the company.
  Net Profit After Taxes ÷ Net Worth

Median
Median is the value from the midpoint that falls halfway between the Upper and Lower Quartiles.

Industry Quartiles
Industry Quartiles are static values taken directly from the KBR database tables. The value from the midpoint that falls halfway to the top of the list is selected as the **Upper Quartile**. The value that is halfway between the median and the bottom of the list is selected as the **Lower Quartile**.